Answering Stock Market Investing Questions

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Thoughts on mutual funds?

The short answer is I'm not a fan of mutual funds.

The biggest issue with mutual funds is that they are not designed to be opportunistic entities. It may be a good strategy for individuals looking for diversification but you won't make a fortune owning mutual funds.

Each mutual fund has its mandate. This means they are restricted to only buying certain things – whether it makes sense or not. Your aim as an investor should not be to have exposure to some asset class.

You may see certain funds with attractive 5, 10, 15-year returns. Those returns are misleading. One of the most interesting numbers to look at is the split between fund returns and investor returns. Fund returns show you the portfolio returns. Investor returns show you the experience of the fund's average investor. Investor returns are almost always lower than fund returns. This is because investors buy and sell at the wrong time. When things look good, they buy. When things look bad, they sell.

Another problem is that there are conflicts of interest in the mutual fund business. What is good for the fund is not necessarily good for their investors. Mutual funds make money by charging fees – management fee, front-end fee, back-end fee, switching fee, redemption fee, etc. The more money and funds they manage, the more fees they collect. These fees are usually deducted from the net-asset-value (NAV) of the fund. Investors don't even see these fees because the fund company handles them in-house.

After fees, I don't think the mutual fund industry delivers value to the people who buy them. If the fund charges 2% per year and then brokers switch people between funds, costing another 2%, that's a terrible deal for investors. It's much better to be part of a system that delivers value to people who buy the product.

Furthermore, there is a cognitive shortcut known as survivorship bias. This is the tendency to focus on successful examples and ignore failures. The performance of the mutual fund industry is skewed upwards by survivorship bias. When underperforming funds are shut, its poor returns data disappears as well. This makes the industry's historic returns seem better than they are.
Here's what you can do if you are interested in buying mutual funds. Mutual funds reveal their positions. Look up what they own and decide if their investment strategy

and holdings make sense to you. A good fund manager should have a significant percentage of their net worth invested in his/her fund. However, this is very rare.

How to make the right investment decisions in the era of Covid-19?

I believe now is a good time to conduct formal, hard-nosed reviews of each of your stock holdings. Decide whether the value of the businesses you own has been permanently impaired and whether you want to continue holding them.

Make sure the businesses you choose to hold are resilient and can survive this period with their earning power reasonably intact. Ideally, you want them to have strong and liquid balance sheets with no near term maturities. Decide whether management is being active and aggressive in preparing for the worst. Have they shored up their balance sheet by raising capital? Have they drawn down their revolving loan facilities? Can you count on them to get through this?

For someone who has minimal knowledge of this topic, what's a good way to start?

Investing is one of the few disciplines that you can learn by reading.

A good way to start is by reading the business section of your local newspaper or a business magazine such as Bloomberg Businessweek. You don't have to read every single article – just the ones that interest you.

Next, start reading stock market investing books such as One Up On Wall Street by Peter Lynch, The Little Book That Still Beats The Market by Joel Greenblatt, The Warren Buffett Way by Robert Hagstrom, and The Intelligent Investor by Ben Graham. Reading them in this order is not a bad idea.

A useful exercise is to pick one simple publicly traded business. Then imagine that your distant relative has passed away and you find out that you have inherited 100% of that business. What are you going to do about it? You will probably try to learn everything about that business. Getting into the habit of looking at stocks through the lens of a 100% owner will give you a tremendous edge over other market participants.

How do I access markets? I.e. Create trading accounts in Thailand and for U.S. stock exchanges.

You can invest in Thai stocks through the big banks in Thailand. You can either walk into their brokerage office with your ID card or open an account through their mobile banking app.

Investing on U.S. exchanges is a bit harder. I recommend that you check out U.S. based discount brokerages such as Interactive Brokers. Whichever platform you decide, don't trade options, short stocks, or use margin leverage.

What are the key factors you consider before selling a stock?

Here are the main reasons why I will sell a stock:

- I have misjudged the quality of the business
- The competitive advantage of the business has weakened
- I don't agree with management's strategy or their capital allocation decisions
- I have found a better investment
- The stock has become egregiously overvalued

Sir John Templeton said that even the best investors in the world will be wrong 1/3 of the time. Mistakes are part of the investment landscape. The good news is that investing is a very forgiving business. Even with a healthy error rate, you can still do well over the long run.

Once I lose confidence in a business or management team, I will fully exit the investment. It doesn't matter what I paid for the stock. Also, avoid selling your winners to buy more of your losers. Peter Lynch said that this is akin to cutting the flowers and watering the weeds.

Selling great companies run by great managers, even at seemingly rich valuations, is usually a mistake. A rigorous buy discipline should lead to easier and fewer sell decisions.